

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Oceana County Road Commission	County Oceana
Fiscal Year End 12/31/06	Opinion Date May 1, 2007	Date Audit Report Submitted to State May 24, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

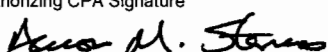
YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA	License Number 1101024055	

**Oceana County Road Commission
Hart, Michigan**

FINANCIAL STATEMENTS

December 31, 2006

Oceana County Road Commission

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December 31, 2006

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INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners
Oceana County
Hart, Michigan

We have audited the accompanying component unit financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Oceana County Road Commission, a component unit of Oceana County, Michigan as of and for the year ended December 31, 2006, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Oceana County Road Commission as of December 31, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 1, 2007, on our consideration of the Oceana County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison, as identified in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the component unit financial statements that collectively comprise the Oceana County Road Commission financial statements. The Other Supplementary Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the component unit financial statements of the Oceana County Road Commission. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 1, 2007

Oceana County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

Our discussion and analysis of Oceana County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the year ended December 31, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and the other supplementary information section that presents the operating fund broken down between primary, local, and county roads. The basic financial statements include two kinds of statements that present different views of the Oceana County Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Oceana County Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net Assets" is the difference between the assets and liabilities - this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Oceana County Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Oceana County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

Fund Financial Statements

The Road Commission currently has two funds, the general operations fund and the pension fund. All of the Oceana County Road Commission's activities are accounted for in the general operations fund. The general operations fund is a governmental fund type. The General Operating Fund budget vs. actual schedules are located on pages 20 and 21. The other supplementary information begins on page 22 and provides detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Oceana County Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following each fund level financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets decreased from \$8,440,286 to \$7,968,735, for the year ended December 31, 2006. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorized the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for amounts invested in capital assets, net of related debt) are considered restricted.

Net assets decreased by \$471,551 for 2006. The primary reason for the decrease was work completed to upgrade Oceana Drive.

A comparison of net assets as of the years ended December 31, 2005 and 2006 follows:

	<u>2005</u>	<u>2006</u>
Current Assets	\$ 2,886,528	\$ 1,158,773
Capital Assets	<u>6,741,853</u>	<u>7,703,994</u>
TOTAL ASSETS	9,628,381	8,862,767
Current Liabilities	568,317	367,296
Noncurrent Liabilities	<u>619,778</u>	<u>526,736</u>
TOTAL LIABILITIES	1,188,095	894,032
Invested in capital assets, net of related debt	6,341,853	7,383,994
Restricted for County Roads	<u>2,098,433</u>	<u>584,341</u>
TOTAL NET ASSETS	<u>\$ 8,440,286</u>	<u>\$ 7,968,735</u>

Oceana County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

Changes in Net Assets

The following table presents comparison of changes in net assets between 2005 and 2006.

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2006</u>
Program Revenues		
Charges for services	\$ 855,172	\$ 878,874
Operating grants & contributions	4,076,521	3,936,945
Capital grants & contributions	2,626,788	1,051,740
General Revenues		
Interest	29,884	70,124
Miscellaneous	-	67,858
Loss on disposal of capital assets	-	(746)
TOTAL REVENUES	<u>7,588,365</u>	<u>6,004,795</u>
Expenses		
Primary Roads	1,408,575	2,929,911
Local Roads	2,085,698	1,714,772
State Trunkline	864,453	883,220
Equipment - net	198,295	261,755
Administrative - net	354,881	389,824
Compensated absences	2,135	(35,008)
Infrastructure depreciation	234,615	309,019
Interest expense	24,060	22,853
TOTAL EXPENSES	<u>5,198,295</u>	<u>6,476,346</u>
DECREASE IN NET ASSETS	<u>\$ 2,390,070</u>	<u>\$ (471,551)</u>

The Oceana County Road Commission's Fund Level Information

The Road Commission's general operating fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for road and highway purposes. For the year ended December 31, 2006, the fund balance of the general operating fund decreased \$1,544,087 as compared to an increase of \$1,042,328 in the fund balance for the year ended December 31, 2005. Total operating revenues were \$6,005,541, a decrease of \$1,582,824 as compared to last year. There was also an increase in interest earned due to the overall economy in the amount of \$40,240. Total expenditures were \$7,549,628, an increase of \$1,003,591 as compared to last year.

Oceana County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

A comparison of changes in the Operating Fund for the year ended December 31, 2006 and 2005 follows:

	<u>Operating Fund</u>	
	<u>2005</u>	<u>2006</u>
Revenues		
Licenses & Permits	\$ 12,092	\$ 14,200
Intergovernmental Grants	6,049,303	4,666,603
Contributions from local units	344,236	326,082
Charges for services	843,080	864,674
Interest & Rents	29,884	70,124
Other	<u>-</u>	<u>67,858</u>
TOTAL REVENUES	7,588,365	6,005,541
Expenditures		
Primary Road	1,938,028	3,905,721
Local Road	2,788,606	2,286,567
State Trunkline	864,453	883,220
Equipment - net	331,318	322,807
Administrative - net	339,149	363,139
Capital outlay	67,160	(310,066)
Debt Service	191,740	98,240
Drain Assessment	<u>25,583</u>	<u>-</u>
TOTAL EXPENDITURES	<u>6,546,037</u>	<u>7,549,628</u>
CHANGE IN NET ASSETS	1,042,328	(1,544,087)
FUND BALANCE - BEGINNING	<u>1,473,580</u>	<u>2,515,908</u>
FUND BALANCE - ENDING	<u>\$ 2,515,908</u>	<u>\$ 971,821</u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts, and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2006 was equal to the original budget of the Road Commission. The actual revenue recognized during 2006 was lower than the final amended budget by \$277,409.

The final amended expenditures budget for 2006 was equal to the original budget of the Road Commission. The actual expenditures recognized during 2006 were lower than the final amended budget by \$531,587. There were unfavorable variances in certain expenditure line items.

Oceana County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

Capital Asset & Debt Administration

Capital Assets

As of December 31, 2006, the Road Commission has invested \$7,703,994 in net capital assets. This amount represents a net increase (including additions and deductions) of \$962,141 as follows:

	<u>2005</u>	<u>2006</u>
Capital Assets Not Being Depreciated		
Land & Improvements	\$ 62,094	\$ 62,094
Construction in progress	<u>272,285</u>	<u>-</u>
SUBTOTAL	334,379	62,094
Capital Assets Being Depreciated		
Buildings	1,686,839	1,686,839
Road Equipment	5,244,616	5,036,916
Shop Equipment	99,777	99,777
Office Equipment	37,518	37,518
Engineer Equipment	3,744	3,744
Infrastructure - Roads	4,164,219	5,603,730
Infrastructure - Bridges	<u>1,199,967</u>	<u>1,308,059</u>
SUBTOTAL	<u>12,436,680</u>	<u>13,776,583</u>
TOTAL CAPITAL ASSETS	12,771,059	13,838,677
TOTAL ACCUMULATED DEPRECIATION	<u>(6,029,206)</u>	<u>(6,134,683)</u>
TOTAL NET CAPITAL ASSETS	<u>\$ 6,741,853</u>	<u>\$ 7,703,994</u>

This year's major capital asset additions included the following:

Equipment	
Roads	\$ 272,244
Infrastructure	
Bridges	108,092
Roads	<u>1,439,511</u>
TOTAL	<u>\$ 1,819,847</u>

There was no installment purchase agreements entered into during 2006.

During 2006, the Road Commission disposed of 1 car, 1 motor grader, 6 trucks, 1 excavator, 1 tractor, 1 trailer, and miscellaneous hand tools.

Oceana County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

Debt Administration

As of December 31, 2006, the Road Commission had \$320,000 in long-term bonds outstanding versus \$400,000 last year, a decrease of 20% as shown below.

	<u>12-31-05 Balance</u>	<u>2006 Payment</u>	<u>12-31-06 Balance</u>
Bonds Payable	<u>\$ 400,000</u>	<u>\$ 80,000</u>	<u>\$ 320,000</u>

During 2006 there was no new bonded debt.

Other obligations include accrued vacation pay and sick leave. As of December 31, 2006, the Road Commission has a \$380,947 outstanding debt related to accumulated unused vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Notes to the Financial Statements.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2007 budget. One of the factors is the economy. The Road Commission derives approximately 50% of its revenues from the fuel tax collected. Using MDOT projections, it is estimated that the Road Commission will receive \$3,520,212 or about \$420,000 less in MTF revenues in 2007. During 2007 we will be completing a major road project that will increase our Federal and State revenues.

The above items were considered when adopting the budget for 2007.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens, and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Oceana County Road Commission's administrative offices at P.O. Box 112, Hart, MI 49420.

BASIC FINANCIAL STATEMENTS

Oceana County Road Commission

STATEMENT OF NET ASSETS

December 31, 2006

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 258,754
Accounts receivable	138
Due from other governmental units	
State	628,791
Local	42,465
Inventory	<u>228,625</u>
Total current assets	1,158,773
Noncurrent assets	
Capital assets, not being depreciated	62,094
Capital assets, net of accumulated depreciation	<u>7,641,900</u>
Total capital assets	<u>7,703,994</u>
TOTAL ASSETS	<u>8,862,767</u>
LIABILITIES	
Current liabilities	
Accounts payable	12,091
Accrued liabilities	31,885
Accrued interest payable	6,133
Current portion of compensated absences	237,187
Current portion of long-term debt	<u>80,000</u>
Total current liabilities	367,296
Noncurrent liabilities	
Advances	142,976
Noncurrent portion of compensated absences	143,760
Noncurrent portion of long-term debt	<u>240,000</u>
Total noncurrent liabilities	<u>526,736</u>
TOTAL LIABILITIES	<u>894,032</u>
NET ASSETS	
Invested in capital assets, net of related debt	7,383,994
Restricted for County Roads	<u>584,741</u>
TOTAL NET ASSETS	<u><u>\$ 7,968,735</u></u>

See accompanying notes to financial statements.

Oceana County Road Commission

STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

	Governmental Activities
Program Expenses	
Primary Road	\$ 2,929,911
Local Road	1,714,772
State Trunkline	883,220
Equipment - net	261,755
Administrative - net	389,824
Compensated absences	(35,008)
Infrastructure depreciation	309,019
Interest expense	22,853
	<hr/>
TOTAL PROGRAM EXPENSES	6,476,346
Program Revenues	
Charges for services	878,874
Operating grants and contributions	3,936,945
Capital grants and contributions	1,051,740
	<hr/>
TOTAL PROGRAM REVENUES	5,867,559
	<hr/>
NET PROGRAM EXPENSES	(608,787)
General Revenues	
Interest	70,124
Miscellaneous	67,858
Loss on disposal of capital assets	(746)
	<hr/>
TOTAL GENERAL REVENUES	137,236
	<hr/>
CHANGE IN NET ASSETS	(471,551)
Net assets, beginning of the year	<hr/> 8,440,286
Net assets, end of the year	<hr/> <hr/> \$ 7,968,735

See accompanying notes to financial statements.

Oceana County Road Commission
GOVERNMENTAL FUND BALANCE SHEET
December 31, 2006

	Governmental Fund Type
	General
	Operating Fund
ASSETS	
Cash and cash equivalents	\$ 258,754
Accounts receivable	138
Due from other governmental units	
State of Michigan	628,791
Local	42,465
Inventory	228,625
	<hr/>
TOTAL ASSETS	\$ 1,158,773
	<hr/>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	\$ 12,091
Accrued liabilities	31,885
Advances	
State of Michigan	142,976
	<hr/>
TOTAL LIABILITIES	186,952
FUND EQUITY	
Fund balance	
Reserved for inventory	228,625
Unreserved - undesignated	743,196
	<hr/>
TOTAL FUND EQUITY	971,821
	<hr/>
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,158,773
	<hr/>

See accompanying notes to financial statements.

Oceana County Road Commission

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2006

Total fund balance - governmental fund **\$ 971,821**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 13,838,677	
Accumulated depreciation is	<u>(6,134,683)</u>	
Capital assets, net		7,703,994

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Fund Balance Sheet.
Long-term liabilities at year-end consist of:

Bond payable	(320,000)	
Accrued interest payable	(6,133)	
Compensated absences	<u>(380,947)</u>	
		<u>(707,080)</u>

Net assets of governmental activities **\$ 7,968,735**

See accompanying notes to financial statements.

Oceana County Road Commission

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended December 31, 2006

	Governmental Fund Type <u>General</u> <u>Operating Fund</u>
REVENUES	
Licenses and permits	\$ 14,200
Intergovernmental	4,988,685
Charges for services	864,674
Interest and rents	70,124
Other	<u>67,858</u>
TOTAL REVENUES	6,005,541
EXPENDITURES	
Current	
Primary Road	3,905,720
Local Road	2,286,567
State Trunkline	883,220
Equipment - net	322,807
Administrative - net	363,139
Capital outlay - net	(310,065)
Debt Service	<u>98,240</u>
TOTAL EXPENDITURES	<u>7,549,628</u>
NET CHANGE IN FUND BALANCE	(1,544,087)
Fund balance, beginning of year	<u>2,515,908</u>
Fund balance, end of year	<u><u>\$ 971,821</u></u>

See accompanying notes to financial statements.

Oceana County Road Commission

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

Net change in fund balance - governmental fund **\$ (1,544,087)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 1,547,562	
Depreciation expense	(275,656)	
Infrastructure depreciation expense	<u>(309,019)</u>	
Excess of depreciation expense over capital outlay		962,887
Net effect of disposal of capital assets		(746)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures in the governmental fund, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.

In the current year, these amounts consist of:

Bond principal	80,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund. These activities consist of:

Decrease in accrued interest payable	(4,613)	
(Increase) in accrued compensated absences	<u>35,008</u>	
		<u>30,395</u>

Change in net assets of governmental activities **\$ (471,551)**

See accompanying notes to financial statements.

Oceana County Road Commission

Fiduciary Fund

STATEMENT OF NET ASSETS

December 31, 2006

	Pension Fund
ASSETS	
Investments	<u>\$ 2,130,339</u>
NET ASSETS	
Held in trust for pension benefits	<u>\$ 2,130,339</u>

See accompanying notes to financial statements.

Oceana County Road Commission

Fiduciary Fund

STATEMENT OF CHANGES IN PLAN NET ASSETS

Year Ended December 31, 2006

	<u>Pension Fund</u>
ADDITIONS	
Contributions	
Employer	\$ 124,696
Investment earnings	
Interest and dividends	<u>183,368</u>
TOTAL ADDITIONS	308,064
DEDUCTIONS	
Benefits	<u>36,732</u>
CHANGE IN NET ASSETS	271,332
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	<u>1,859,007</u>
End of year	<u><u>\$ 2,130,339</u></u>

See accompanying notes to financial statements.

Oceana County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Oceana County Road Commission (the "Commission") is a component unit of Oceana County, Michigan. The Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, and contributions from other local units of government for work performed for road projects throughout the county.

The Commission, which is established pursuant to the County Road Law (MCL 224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Commission. The Commission provides services to sixteen (16) Townships in Oceana County and maintains over 1,160 miles of local and primary roads.

1. Reporting Entity

The Commission is required by Public Act 51 of the State of Michigan to have an audit performed of its operations. This financial report has been prepared to meet this State requirement.

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Oceana County Road Commission. The Commission is considered a component unit of Oceana County, Michigan and is discretely presented in Oceana County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Hart, Michigan.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Commission as a whole.

The statement of activities presents the direct functional expenses of the Commission and the program revenues that support them. Direct expenses are specifically associated with a service, program, or Commission and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and shows how governmental functions are either self-financing or supported by the general revenues of the Commission.

FUND FINANCIAL STATEMENTS

The Commission uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Commission's individual major fund.

The major fund of the Commission is:

- a. Special Revenue Fund - This general operating fund is used to account for all financial resources of the Commission, which are restricted to expenditures for specified county road related purposes.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues, which are considered measurable but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Commission has elected not to follow subsequent private-sector guidance.

5. Budgets and Budgetary Accounting

The annual budget of the Commission is prepared by Commission management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of the Commission's checking accounts, imprest cash, and short-term investments with an original maturity of 90 days or less.

Investments are reported at fair value. Investments consist of various Pension Fund securities.

7. Inventories

Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

Oceana County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

8. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items) are reported under governmental activities within the operating fund in the government-wide financial statements. Capital assets are defined by the Oceana County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Oceana County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before December 31, 2007; as permitted by GASB Statement No. 34.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 - 50 years
Road Equipment	5 - 8 years
Shop Equipment	10 years
Engineering Equipment	4 - 10 years
Office Equipment	4 - 10 years
Infrastructure - Roads	5 - 30 years
Infrastructure - Bridges	12 - 50 years

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under the governmental activities within in the Operating Fund Statement of Net Assets.

10. Accrued Vacation and Sick Leave

In accordance with contracts negotiated with the various employee groups of the Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount along with related payroll taxes is recorded in the government-wide financial statements.

11. Equipment Rentals

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

12. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

13. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Commission. All Commission receipts are deposited with the Oceana County Treasurer's Office, and in order to make disbursements, the Oceana County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer. All funds of the Commission are held with the County Treasurer in separate accounts in the Commission's name.

In accordance with Michigan Compiled Laws, the Commission is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Oceana County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

The Commission's bank deposits at December 31, 2006, are composed of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking accounts	\$ 148,402	\$ 349,500
Certificates of Deposit	<u>110,152</u>	<u>110,152</u>
Total	<u>\$ 258,554</u>	<u>\$ 459,652</u>

Bank deposits of the Commission are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Commission. As of December 31, 2006, the Commission's accounts were insured in the amount of \$225,000 by the FDIC. The amount of \$234,652 was uninsured and uncollateralized. The cash captions on the basic financial statements include \$200 in imprest cash.

Investments

As of December 31, 2006, the Commission had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Uncategorized pooled investments		
Fixed	\$ 865,478	\$ 865,478
Safeco RST Multi-Cap Core	834,404	834,404
Safeco RST Core Equity	14,523	35,309
Templeton Growth Securities Fund	87,574	62,082
Mutual Shares Securities Fund	50,486	29,851
Safeco RST Growth Opportunities	89,162	70,498
Fidelity VIP Contrafund	92,892	79,025
AIM V.I. Real Estate Fund	11,840	6,944
Templeton Developing Markets Securities Fund	3,529	1,943
Franklin Small Growth Fund	20,094	24,154
Fidelity VIP Equity-Income	3,131	1,629
Fidelity VIP Growth & Income	16,332	14,476
Fidelity VIP Growth	213	1,692
Fidelity Growth	2,466	2,466
DWS - Balanced	20,868	20,868
RST Bond	6,038	6,038
RST High Yield 2 Fund	3,755	3,755
American Century VP Balanced	2,381	2,381
ING Global	54	54

Oceana County Road Commission
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Uncategorized pooled investments - continued		
Fed Cap	\$ 212	\$ 212
PI Emerg2	151	151
JP Morgan Med. Cap	53	53
Franklin Income	4,562	4,562
Franklin Small Cap Value	<u>141</u>	<u>141</u>
	<u>\$ 2,130,339</u>	<u>\$ 2,130,339</u>

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The Commission's investments were not subject to rating by a NRSRO.

Interest rate risk

The Commission has not adopted a policy that indicates how the Commission will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Commission has not adopted a policy that indicates how the Commission will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Commission has not adopted a policy that indicates how the Commission will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

NOTE C: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2006 was as follows:

	<u>Balance Jan. 1, 2006</u>	<u>Additions and Reclassifications</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2006</u>
Capital Assets Not Being Depreciated				
Land and land improvements	\$ 62,094	\$ -	\$ -	\$ 62,094
Construction in progress	<u>272,285</u>	<u>-</u>	<u>(272,285)</u>	<u>-0-</u>
Subtotal	334,379	-0-	(272,285)	62,094

Oceana County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE C: CAPITAL ASSETS - CONTINUED

	<u>Balance Jan. 1, 2006</u>	<u>Additions and Reclassifications</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2006</u>
Capital Assets Being Depreciated/Depleted				
Buildings	\$ 1,686,839	\$ -	\$ -	\$ 1,686,839
Equipment -				
Road	5,244,616	272,244	(479,944)	5,036,916
Shop	99,777	-	-	99,777
Office	37,518	-	-	37,518
Engineer	3,744	-	-	3,744
Infrastructure - roads	4,164,219	1,439,511	-	5,603,730
Infrastructure - bridges	<u>1,199,967</u>	<u>108,092</u>	<u>-</u>	<u>1,308,059</u>
Subtotal	12,436,680	1,819,847	(479,944)	13,776,583
Less Accumulated Depreciation/Depletion				
Buildings	521,607	54,859	-	576,466
Equipment				
Road	4,865,253	220,797	(479,198)	4,606,852
Shop	99,777	-	-	99,777
Office	37,518	-	-	37,518
Engineer	3,744	-	-	3,744
Infrastructure - roads	444,011	280,187	-	724,198
Infrastructure - bridges	<u>57,296</u>	<u>28,832</u>	<u>-</u>	<u>86,128</u>
Subtotal	<u>6,029,206</u>	<u>584,675</u>	<u>(479,198)</u>	<u>6,134,683</u>
Net Capital Assets Being Depreciated	<u>6,407,474</u>	<u>1,235,172</u>	<u>(746)</u>	<u>7,641,900</u>
Total Net Capital Assets	<u>\$ 6,741,853</u>	<u>\$ 1,235,172</u>	<u>\$(273,031)</u>	<u>\$ 7,703,994</u>

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 232,237
Indirect Equipment	16,734
Net Administrative Expense	26,685
Infrastructure	<u>309,019</u>
	<u>\$ 584,675</u>

Oceana County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the Commission for the year ended December 31, 2006:

	Balance Jan. 1, 2006	Additions	Deletions	Balance Dec. 31, 2006	Amounts Due Within One Year
General Long-Term Debt					
2000 MTF Revenue Bonds	\$ 400,000	\$ -	\$ 80,000	\$ 320,000	\$ 80,000
Vacation and sick leave	<u>415,955</u>	<u>164,958</u>	<u>199,966</u>	<u>380,947</u>	<u>237,187</u>
	<u>\$ 815,955</u>	<u>\$ 164,958</u>	<u>\$ 279,966</u>	<u>\$ 700,947</u>	<u>\$ 317,187</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below.

Bonds payable at December 31, 2006, are as follows:

\$800,000 Michigan Transportation Fund Revenue Bonds, Series 2000 C, dated November 17, 2000, due in annual installments of \$80,000 through August 1, 2010, with interest ranging from 4.4 to 4.7 percent, payable semi-annually. \$ 320,000

Accumulated Vacation and Sick

In accordance with Commission personnel policies and/or contracts negotiated with various employee groups of the Commission, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts.

Accumulated vacation and sick leave represents a liability to the Commission, which is presented in a current and long-term portion of the liability. For this reason, the total liability reported in the government-wide financial statements represents a current liability of \$237,187 and a long-term liability of \$143,760 at December 31, 2006.

The annual requirements to pay long-term debt principal and interest outstanding for the following bonds at December 31, 2006, are as follows:

Year Ending December 31,	Bond Payable		Total
	Principal	Interest	
2007	\$ 80,000	\$ 14,720	\$ 94,720
2008	80,000	11,120	91,120
2009	80,000	7,440	87,440
2010	<u>80,000</u>	<u>3,760</u>	<u>83,760</u>
Total	<u>\$ 320,000</u>	<u>\$ 37,040</u>	<u>\$ 357,040</u>

NOTE E: FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2006, the Federal aid received and expended by the Road Commission was \$593,443 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if it expended \$500,000 or more for negotiated projects.

Oceana County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE F: EMPLOYEE RETIREMENT SYSTEM

Plan Description

The Oceana County Road Commission has a master defined contribution pension plan covering substantially all full-time employees. This defined contribution plan is administered through the Safeco Life Insurance Company.

A defined contribution pension plan provides pension benefits in return for services rendered, an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on the investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. The plan requires the employer to contribute the equivalent of 6% of the participation employee's gross regular wages, with immediate vesting. Similarly, at least 5% of the employee's gross salary is to be contributed by the employee to the IRS Code Section 457 Plan. No pension provision changes occurred during the year that affected the required contributions to be made by the Road Commission or its employees.

Michigan Compiled Laws, Section 38.1121, authorizes the Road Commission to invest pension assets in a wide variety of investments including: stocks, bonds, certificates of deposit, real estate, annuity contracts, obligations of a specified nature and real or personal property. Specific limitations apply to the various investment types. The Road Commission's pension fund investments are in accordance with statutory authority. Investments are held by and purchased through Safeco Life Insurance Company.

NOTE G: CONTINGENT LIABILITIES

The Commission participates in a number of Federal and State assisted grant programs that are subject to compliance audits. The programs and the periodic program compliance audits of many of the programs have not yet been conducted, completed, or resolved. Accordingly, the Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

NOTE H: RISK MANAGEMENT

The Road Commission participates in a pool, the Michigan County Road Commission Self-Insurance Pool, with other municipalities, for claims relating to general liability, trunkline, excess liability, auto liability, errors and omissions and physical damage. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to a special assessment to make up the deficiency. The Road Commission has not been informed of any special assessments being required.

The Road Commission participates in the County Road Commission Self-Insurance Fund (CRCSIF) for workers' compensation insurance and has full statutory coverage for workers' disability compensation and employers' liability as granted by the State of Michigan under Chapter 6, Section 418.611 of the Workers' Disability Compensation Act. The Commission has no liability for additional assessments based on the claims filed against the fund nor do they have rights to dividends.

The Commission carries commercial insurance for the risk of loss due to directors' and officers' liability and tank storage.

Oceana County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the Budgetary Comparison Schedules presented as Required Supplementary Information, the Oceana County Road Commission budgeted expenditures in the General Operating Fund have been shown at the functional classification level. The approved budget of the Oceana County Road Commission has been adopted the activity level for the General Operating Fund.

	<u>Amended Amounts Appropriated</u>	<u>Actual Amounts Expended</u>	<u>Variance</u>
Primary Road			
Routine and preventative maintenance	\$ 1,450,000	\$ 2,929,912	\$ 1,479,912
Local Road			
Routine and preventative maintenance	1,150,000	1,714,772	564,772
Equipment			
Direct	750,000	875,802	125,802
Indirect	375,000	417,417	42,477
Equipment rental	(1,500,000)	(1,337,937)	162,063

NOTE J: FUND BALANCE RESERVES

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following is the fund balance reserve as of December 31, 2006:

General Operating Fund	
Reserved for inventory	<u>\$ 228,625</u>

NOTE K: POST-EMPLOYMENT BENEFITS

In accordance with the union agreement and personnel policy, effective January 1, 1996, upon retirement each employee will be eligible for continuation of subscriber health insurance. Between the age of 62 and 65, the Road Commission will pay 100% of the subscriber benefit. This benefit will expire upon reaching the age of 65. After age 65, for health insurance to continue the employee is required to pay 100% of the premium amount applicable to their coverage on a monthly basis to the Road Commission. The Road Commission remits the full premium to the insurance carrier. The total cost was \$79,397 and the amount reimbursed by retirees was \$62,405 with a net cost to the Road Commission of \$16,992. During the year ended December 31, 2006, 3 retirees between the age of 62 and 65 were receiving benefits. The Road Commission's policy is to finance these benefits on a pay as you go basis.

Oceana County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE K: POST-EMPLOYMENT BENEFITS - CONTINUED

Life Insurance

The Road Commission has purchased term life insurance for almost all full time employees, per the union agreement and personnel policy. Upon retirement, the insurance continues at a lower rate of coverage according to the following:

Retired while under age 70	\$ 3,000
Retired while age 70 to 74	2,500
Retired while age 75 to 79	1,500
Retired at age 80 and above	1,000

For the year ended December 31, 2006, the Road Commission paid life insurance premiums for retirees totaling \$8,755.

UPCOMING REPORTING CHANGE

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

REQUIRED SUPPLEMENTARY INFORMATION



Oceana County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
REVENUES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Licenses and permits				
Permits	\$ 11,000	\$ 11,000	\$ 14,200	\$ 3,200
Intergovernmental				
Federal sources				
Economic development "D" funds	82,500	82,500	-	(82,500)
Economic development "C" funds	-	-	592,753	592,753
Surface transportation program	166,000	166,000	689	(165,311)
State sources				
Motor Vehicle Highway Funds				
Engineering	10,000	10,000	10,000	-0-
Primary road	2,085,500	2,085,500	2,182,911	97,411
Local road	1,600,500	1,600,500	1,616,864	16,364
Snow removal	132,000	132,000	127,170	(4,830)
Economic Development Funds				
Target Industries "A" funds	-	-	17,043	17,043
Rural primary "D" funds	85,000	85,000	70,777	(14,223)
Forest road	48,500	48,500	48,396	(104)
Local sources				
Township contributions	750,000	750,000	322,082	(427,918)
Other contributions	292,000	292,000	-	(292,000)
Total intergovernmental	5,252,000	5,252,000	4,988,685	(263,315)
Charges for services				
State Trunkline maintenance	850,000	850,000	864,674	14,674
State Trunkline non-maintenance	125,000	125,000	-	(125,000)
Salvage sales	30,000	30,000	-	(30,000)
Total charges for services	1,005,000	1,005,000	864,674	(140,326)
Interest	14,500	14,500	70,124	55,624
Other				
Gain on equipment disposal	-	-	67,858	67,858
Refunds	450	450	-	(450)
Total other	450	450	67,858	67,408
TOTAL REVENUES	\$ 6,282,950	\$ 6,282,950	\$ 6,005,541	\$ (277,409)

Oceana County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
EXPENDITURES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES				
Current				
Primary road				
Preservation - structural improvements	\$ 2,525,000	\$ 2,525,000	\$ 975,808	\$ 1,549,192
Routine and preventative maintenance	1,450,000	1,450,000	2,929,912	(1,479,912)
Total primary road	3,975,000	3,975,000	3,905,720	69,280
Local road				
Preservation - structural improvements	1,192,500	1,192,500	571,795	620,705
Routine and preventative maintenance	1,150,000	1,150,000	1,714,772	(564,772)
Total local road	2,342,500	2,342,500	2,286,567	55,933
State Trunkline				
Maintenance	885,000	885,000	883,220	1,780
Equipment				
Direct	750,000	750,000	875,802	(125,802)
Indirect	375,000	375,000	417,477	(42,477)
Operating	412,500	412,500	367,465	45,035
Less: Equipment rental	(1,500,000)	(1,500,000)	(1,337,937)	(162,063)
Total equipment	37,500	37,500	322,807	(285,307)
Administrative				
Administration	520,000	520,000	449,903	70,097
Less:				
Handling charges	-	-	(4,888)	4,888
Overhead state	-	-	(77,619)	77,619
Purchase discount	-	-	(557)	557
Other	-	-	(3,700)	3,700
Total administrative	520,000	520,000	363,139	156,861
Drains at large				
Drain assessment	12,500	12,500	-	12,500
Capital outlay				
Capital outlay	485,000	485,000	131,012	353,988
Less:				
Depreciation and depletion	(325,000)	(325,000)	(441,077)	116,077
Total capital outlay	160,000	160,000	(310,065)	470,065
Debt service				
Principal payments	94,500	94,500	80,000	14,500
Interest payments	32,000	32,000	18,240	13,760
Total debt service	126,500	126,500	98,240	28,260
Contingency	22,215	22,215	-	22,215
TOTAL EXPENDITURES	\$ 8,081,215	\$ 8,081,215	\$ 7,549,628	\$ 531,587

OTHER SUPPLEMENTARY INFORMATION

Oceana County Road Commission

STATEMENT OF CHANGES IN FUND BALANCE

GENERAL OPERATING FUND

Year Ended December 31, 2006

TOTAL REVENUES	\$ 6,005,541
TOTAL EXPENDITURES	<u>7,549,628</u>
NET CHANGE IN FUND BALANCE	(1,544,087)
Fund balance, beginning of year	<u>2,515,908</u>
Fund balance, end of year	<u><u>\$ 971,821</u></u>

Oceana County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 2,948,193	\$ 1,827,213	\$ 1,230,135	\$ 6,005,541
TOTAL EXPENDITURES	4,083,961	2,608,824	856,843	7,549,628
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,135,768)	(781,611)	373,292	(1,544,087)
OTHER FINANCING SOURCES (USES)				
Optional transfers in	-	654,873	-	654,873
Optional transfers out	(654,873)	-	-	(654,873)
TOTAL OTHER FINANCING SOURCES (USES)	(654,873)	654,873	-0-	-0-
NET CHANGE IN FUND BALANCE	(1,790,641)	(126,738)	373,292	(1,544,087)
Fund balance (deficit), beginning of year	3,159,795	(320,869)	(323,018)	2,515,908
Fund balance (deficit), end of year	<u>\$ 1,369,154</u>	<u>\$ (447,607)</u>	<u>\$ 50,274</u>	<u>\$ 971,821</u>

Oceana County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Licenses and permits				
Permits	\$ -	\$ -	\$ 14,200	\$ 14,200
Intergovernmental				
Federal sources	592,753	689	-	593,442
State sources	2,276,476	1,796,685	-	4,073,161
Local sources	-	-	322,082	322,082
Total intergovernmental	2,869,229	1,797,374	322,082	4,988,685
Charges for services				
State Trunkline				
Direct charges	-	-	864,674	864,674
Interest	40,285	29,839	-	70,124
Gain on equipment disposal	38,679	-	29,179	67,858
TOTAL REVENUES	<u>\$ 2,948,193</u>	<u>\$ 1,827,213</u>	<u>\$ 1,230,135</u>	<u>\$ 6,005,541</u>

Oceana County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES

Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Preservation - structural improvements	\$ 975,808	\$ 571,795	\$ -	\$ 1,547,603
Routine and preventative maintenance	2,929,912	1,714,772	-	4,644,684
State Trunkline	-	-	883,220	883,220
Equipment Expense - Net	69,597	188,164	65,046	322,807
Administrative Expense - Net	229,046	134,093	-	363,139
Capital Outlay - Net	(120,402)	-	(189,663)	(310,065)
Debt Service	-	-	98,240	98,240
TOTAL EXPENDITURES	<u>\$ 4,083,961</u>	<u>\$ 2,608,824</u>	<u>\$ 856,843</u>	<u>\$ 7,549,628</u>

Oceana County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2006

	Balance Jan. 1, 2006	Additions and Reclassifications	Deletions and Reclassifications	Balance Dec. 31, 2006
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and land improvements	\$ 62,094	\$ -	\$ -	\$ 62,094
Construction in progress	272,285	-	272,285	-0-
Subtotal	334,379	-0-	272,285	62,094
CAPITAL ASSETS BEING DEPRECIATED/DEPLETED				
Buildings	1,686,839	-	-	1,686,839
Equipment				
Road	5,244,616	272,244	479,944	5,036,916
Shop	99,777	-	-	99,777
Office	37,518	-	-	37,518
Engineer	3,744	-	-	3,744
Infrastructure - Roads	4,164,219	1,439,511	-	5,603,730
Infrastructure - Bridges	1,199,967	108,092	-	1,308,059
Subtotal	12,436,680	1,819,847	479,944	13,776,583
LESS ACCUMULATED DEPRECIATION/DEPLETION				
Buildings	521,607	54,859	-	576,466
Equipment				
Road	4,865,253	220,797	479,198	4,606,852
Shop	99,777	-	-	99,777
Office	37,518	-	-	37,518
Engineer	3,744	-	-	3,744
Infrastructure - Roads	444,011	280,187	-	724,198
Infrastructure - Bridges	57,296	28,832	-	86,128
Subtotal	6,029,206	584,675	479,198	6,134,683
Net Capital Assets Being Depreciated	6,407,474	1,235,172	746	7,641,900
Total Net Capital Assets	<u>\$ 6,741,853</u>	<u>\$ 1,235,172</u>	<u>\$ 273,031</u>	<u>\$ 7,703,994</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of County Road Commissioners
Oceana County
Hart, Michigan

We have audited the component unit financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Oceana County Road Commission as of and for the year ended December 31, 2006, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated May 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Oceana County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Oceana County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oceana County Road Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 2006-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

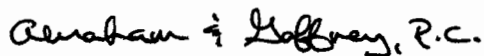
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oceana County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2006-2 and 2006-3.

We noted certain matters that we reported to the management of Oceana County Road Commission in a separate letter dated May 1, 2007.

The Oceana County Road Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Oceana County Road Commission's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of management, the Board of County Road Commissioners, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 1, 2007

Oceana County Road Commission

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2006

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Control Over the Financial Statements.

2006-1 Calculation of Depreciation Expense

Condition: During our testing and recalculation of depreciation expense on a sample of capital assets, we noted that beginning accumulated depreciation plus the current year's depreciation expense did not equal the ending accumulated depreciation balance for all capital assets selected. The calculation errors noted were the combined result of capital asset management software problems that occurred in 2001 and 2003 and user error.

Criteria: Beginning accumulated depreciation plus the current year's depreciation expense should equal the ending accumulated depreciation balance.

Effect: Although the differences noted in the ending accumulated depreciation balance were not considered material to the financial statements, errors existed in the Road Commission's financial statements that were not detected by management or employees in the normal course of performing their assigned functions.

Recommendation: We recommend the Commission review reports generated by their capital asset management system for accuracy to ensure that depreciation expense and accumulated depreciation are being reported accurately in the financial statements.

Corrective Action Response: The finding is stated as both software problems and user error. As to the software error, the producer of the software has been notified and it is hoped the problems have been resolved. The user error referred to will be considered when reviewing the depreciation reported is accurate. The timing of this review will be determined when the report can be produced with accuracy by the software company.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

2006-2 Unfavorable Budget Variances

Condition: During our review of the Road Commission's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities. This issue was noted and reported in our audit comments last year.

Criteria: The Uniform Budgeting and Accounting Act requires the Commission to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Effect: The Oceana County Road Commission adopted the budget for the General Operating Fund at the activity level. Having unfavorable budget variances as described above, the Commission is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the Board of Commissioners monitor budgeted expenditures against actual expenditures on a more frequent basis to alleviate future unfavorable budget variances.

Corrective Action Response: As suggested, the Road Commission has instituted quarterly monitoring of the budget and adjustments at that time. The issue still remains as the software does not spread the "fringe benefits" or the "indirect costs" over the respective accounts until the end of the year accounting is complete. These lump sums are designated to the respective accounts where they are used in a percentage not available during the year. Therefore any attempt to adjust the accounts can be made ineffective when the actual adjustment occurs.

Oceana County Road Commission

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year Ended December 31, 2006

FINDINGS/NONCOMPLIANCE - CONTINUED

Findings Related to Compliance with Requirements Applicable to the Financial Statements - continued.

2006-2 Unfavorable Budget Variances - continued

	<u>March</u>	<u>June</u>	<u>September</u>
Total expenditures	\$ 1,243,646	\$ 2,752,978	\$ 5,135,368
Indirect costs	60,703	156,536	259,113
Fringes	239,283	613,020	756,941
Total	299,986	769,556	1,016,054
Percent of total expenditures	24%	28%	20%

2006-3 Memorandum of Understanding

Condition: During the course of our audit, we noted that the Road Commission entered into a memorandum of understanding with the State Department of Transportation dated August 3, 2005. In the memorandum, the parties agreed that jurisdiction of portions of Old US-31 would transfer from the State to the Road Commission in exchange for \$1,919,000 ("turn-back funds"). The turn-back funds received by the Road Commission represented the estimated cost of renovation, repair, and/or reconstruction work to be performed on the portions of Old US-31 that were transferred to the Road Commission.

At the time the turn-back funds were received by the Road Commission, they were deposited into a separate bank account to signify that the funds were restricted in their purpose and use. In the board minutes from the May 10, 2006, meeting of the County Road Commissioners, a motion was carried that directed the Oceana County Treasurer to transfer approximately \$61,413 from the restricted bank account to the Road Commission's general bank account. Such a transfer was considered necessary to cover the cost of remaining charges for the Stony Lake Oval Bridge replacement in Benona. A similar issue was noted and reported in our audit comments last year.

Criteria: The terms of the memorandum of understanding were such that the turn-back funds were specifically restricted for the renovation, repair, and/or reconstruction work to be performed on the portions of Old US-31 that were transferred to the Road Commission.

Effect: The transfer of funds from the restricted bank account to the general bank account for purposes of financing the Stony Lake Oval Bridge replacement in Benona is a violation of the terms of the memorandum of understanding.

Recommendation: We recommend the Road Commission closely monitor and restrict the use of funds generated through memorandums of understanding to the intended purpose(s) detailed in the agreement. We also recommend the Commission develop a plan to transfer funds from the general bank account back to the turn-back bank account so that the funds may be expended for their intended purpose and accounted for appropriately.

Corrective Action Response: The terms of the contract also include the following:

"Section III, Part B, subpart 5

To expend any excess funds that remain from the amount set forth in section III, Part A, subpart 2, in accordance with the requirements of Act 51, Public Acts of 1951, Section 12, as amended."

The above quoted portion of the contract allows any excess expenditure be used on any primary road within the jurisdiction of the County. At the time of the transfer, the project had been bid and those costs applied to the respective quantities revealed there would be excess funds available for transfer to another necessary primary project, the Garfield Bridge at the Oval. In the future, any transfer will be made after the project is closed out.

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MANAGEMENT LETTER

Board of County Road Commissioners
Oceana County
Hart, Michigan

Dear Gentlemen:

As you know, we have recently completed our audit of the records of Oceana County Road Commission for the year ended December 31, 2006. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The Road Commission should review the status of individual fund balances (deficits) near year-end.

As noted in the Analysis of Changes in Fund Balance included as other supplementary information to the basic financial statements, the Local Road Fund portion of total fund balance ended the year in a deficit financial position. This issue was noted for the Local Road and County Road Fund portions of total fund balance and reported in our audit comments last year.

We suggest the Road Commission closely monitor Primary Road, Local Road, and County Road fund spending, review the status of individual funds near year-end, and make appropriate adjustments when possible to eliminate deficits. The Road Commission should take corrective action to increase revenues and/or decrease expenditures in order to strengthen the financial condition of the Road Commission.

2. The Road Commission should consider funding the liability for accrued compensated absences.

During the course of the audit, we noted that the Road Commission has a growing long-term liability for accrued compensated absences. Management estimates that approximately 50% of the workforce will retire within the next 10 years. These potential retirees have significant balances of accrued compensated absences. In the event that several employees retire in the same year, a large expenditure will be incurred, negatively impacting cash flow as well as fund balance.

We suggest that the Board of Commissioners consider designating a portion of fund balance to earmark funds to ensure funding is available when retirements occur.

3. Management and the Board of Commissioners should be aware of the requirements of GASB Statement No. 45.

The Governmental Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions, such as life insurance). Implementing this accounting standard will cause the financial statements to recognize the cost of providing retiree health care coverage and other benefits over the working life of the employee, rather than at the time the premiums are paid. This pronouncement is effective for the Oceana County Road Commission for the year ending December 31, 2008.

3. Management and the Board of Commissioners should be aware of the requirements of GASB Statement No. 45 - continued.

One of the most significant requirements of GASB Statement No. 45 is the inclusion of certain actuarial information in the notes to the financial statements that is not required or disclosed for the current or past fiscal years. A Schedule of Funding Progress will be required that will disclose funding progress in relation to the Annual Required Contribution, or ARC. The ARC will be calculated annually by an actuary and will be composed of two components: required contributions for current employee service and required contributions for past employee service. Calculation of the ARC requires an amortization period of past service cost of no longer than thirty (30) years.

The Road Commission will be required by GASB Statement No. 45 to recognize in its government-wide financial statements an asset or liability for any excess or deficiency of contributions to the other post-employment benefits plan over or under the ARC.

We would like management and the Board of Commissioners to be aware of this upcoming change and also suggest that discussions be held to initiate the planning process for implementing this new standard.

4. Management and the Board of Commissioners should be aware of the requirement to retroactively restate infrastructure capital assets.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34.

Since the implementation of GASB Statement No. 34, the Oceana County Road Commission has capitalized the current year's infrastructure and has reported that infrastructure in the Statement of Net Assets. We would like to remind management and the Board of Commissioners that the retroactive capitalization of major infrastructure assets that were acquired, donated, constructed, or substantially rehabilitated since December 31, 1980, and through the date of implementation of GASB Statement No. 34 will need to be completed on or before December 31, 2007.

5. Management should consider cross-training employees to perform accounting functions.

During the course of our audit, we noted that in the Clerk's absence, certain accounting functions are not performed.

We suggest that management consider cross-training administrative employees to perform the accounting functions of the Road Commission. In the event that the current Clerk is absent or retires, accounting transactions will continue to be performed timely and accurately. Also, by rotating the responsibilities of those in positions of trust, the Road Commission will strengthen and improve internal controls.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the component unit financial statements, and this report does not affect our report on the component unit financial statements, dated May 1, 2007.

This report is intended for the information and use of management, the Board of County Road Commissioners, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 1, 2007